

**COUNTY OF SAN LUIS OBISPO BOARD OF SUPERVISORS
AGENDA ITEM TRANSMITTAL**

(1) DEPARTMENT General Services Agency	(2) MEETING DATE 10/28/2014	(3) CONTACT/PHONE Kevin Bumen 781-5205	
(4) SUBJECT Request to authorize the Interim Airports Director to submit a grant application to the Federal Aviation Administration to receive Airport Improvement Program grant funding for the construction of a new terminal at the San Luis Obispo County Regional Airport. All Districts.			
(5) RECOMMENDED ACTION It is recommended the Board authorize the Interim Airports Director to submit a grant application to the Federal Aviation Administration (FAA) to fund, in part, a new terminal building at the San Luis Obispo County Regional Airport			
(6) FUNDING SOURCE(S)	(7) CURRENT YEAR FINANCIAL IMPACT \$0.00	(8) ANNUAL FINANCIAL IMPACT \$0.00	(9) BUDGETED? No
(10) AGENDA PLACEMENT { } Consent { } Presentation { } Hearing (Time Est. ____) {X} Board Business (Time Est. <u>30 min.</u>)			
(11) EXECUTED DOCUMENTS { } Resolutions { } Contracts { } Ordinances {X} N/A			
(12) OUTLINE AGREEMENT REQUISITION NUMBER (OAR) N/A		(13) BUDGET ADJUSTMENT REQUIRED? BAR ID Number: N/A { } 4/5 Vote Required {X} N/A	
(14) LOCATION MAP Attached	(15) BUSINESS IMPACT STATEMENT? No	(16) AGENDA ITEM HISTORY { } N/A Date: <u>7/15/2014, 3/11/2014, 11/5/2013,</u> <u>9/24/2013, 7/23/2013, 3/5/2013, 3/6/2012,</u> <u>9/6/2011</u>	
(17) ADMINISTRATIVE OFFICE REVIEW <i>Nikki J. Schmidt</i>			
(18) SUPERVISOR DISTRICT(S) All Districts			

County of San Luis Obispo



TO: Board of Supervisors

FROM: General Services Agency / Kevin Bumen
781-5205

DATE: 10/28/2014

SUBJECT: Request to authorize the Interim Airports Director to submit a grant application to the Federal Aviation Administration to receive Airport Improvement Program grant funding for the construction of a new terminal at the San Luis Obispo County Regional Airport. All Districts.

RECOMMENDATION

It is recommended the Board authorize the Interim Airports Director to submit a grant application to the Federal Aviation Administration (FAA) to fund, in part, a new terminal building at the San Luis Obispo County Regional Airport

DISCUSSION

The San Luis Obispo County Regional Airport has been in need of a new terminal for many years. An initial design was developed beginning in 2003. However, due to the downturn in the economy in 2008 that design was eliminated as construction and operations were no longer sustainable by the Airport. A new design effort was initiated in 2010 with work effort by the design consultant starting in early 2012. The design was completed and accepted by the Board in July 2014.

The purpose of the new terminal is intended to not only meet the current needs of the community but to last well into the future. More importantly it is needed to address necessary modifications to meet Federal Aviation Administration (FAA) safety standards. These standards limit the proximity of aircraft parking and buildings to the runway. The current terminal and the parking apron used by the commercial aircraft are too close to the runway and need to be relocated to effectively meet these requirements. The Airport currently operates with a Modification to Standards issued by the FAA.

The Airports Department has continued the effort of moving forward to complete construction of the terminal. A large portion of the funding for the terminal is planned to be provided by the FAA through an Airport Improvement Program (AIP) Grant. The grant would be a combination of Entitlement Funds as well as Discretionary Funds. The window to submit an application for this Federal Fiscal year has started and applications for this type of project need to be received by the FAA before the end of this calendar year to ensure a consideration of funding for the terminal project.

It is estimated the new terminal will cost on average an additional \$230,000 through FY 2023-24, in order to meet operating and debt obligations. Airports projects that it will require an on-going annual subsidy of approximately \$250,000 to \$300,000 or, a one-time contribution from the General Fund for approximately \$3,100,000. Table A-1 below summarizes the average additional revenues and expenses projected through FY 2024-25.

Table A-1

	Worst Case	Baseline	More Optimistic
Additional Operating Revenues	0	(\$135,400)	(\$236,200)
Additional Operating Expenditures	\$178,000	\$178,000	\$178,000
Additional Debt Service (Local Share Only)	\$328,300	\$187,500	\$190,100
(Surplus)/Deficit	\$506,300	\$230,100	\$131,900

FINANCIAL ANALYSIS

As part of the Terminal project, the Board requested Airports prepare a financial analysis to determine the funding sources of the project and the effect that the project costs would have on the Airports' cash flow.

To perform this analysis a number of assumptions have been made and are outlined in each of the relevant sections. The period for this analysis is a 21 year horizon covering FY 2004-05 through FY 2024-25.

The analysis contains the following major components:

- Funding Sources
- Airports Financial Summary

FUNDING SOURCES

To fund the project, several funding sources have been identified including Airport Improvement Program (AIP) federal grants, Passenger Facility Charge (PFC) revenue, Customer Facility Charge (CFC) and Bonds.

Table B-1 outlines the proposed funding plan for the terminal project costs. Each funding source and the underlying assumptions that accompany are described in the following narrative.

Table B-1

PROPOSED FUNDING SOURCES

<u>Funding Source</u>	<u>Amount</u>
Entitlements	\$5,846,089
Discretionary	13,784,610
Total AIP Funded Amount (FAA)	\$19,630,699
Total PFC Funded Amount	7,581,262
Total CFC Funded Amount	334,332
Total Locally Funded Amount	3,035,696
Total	\$30,581,988

AIP Grants

AIP grants include amounts received from entitlements and discretionary funds. Entitlements are based upon enplanements, currently averaging \$1.4 million annually, and expire every 36 months if not used. Discretionary funds are competitive in nature. The various projects submitted to the FAA are weighed against each other with those projects meeting FAA objectives receiving the funds. For purposes of this analysis, it is assumed that the \$19.6 million of AIP passenger entitlements and discretionary funds will be received in 2015-2016 timeframe for the terminal project.

PFC Revenue

Currently Airports, through its air carriers, levies a \$4.39 Passenger Facility Charges (PFC) per enplaned passenger that can be used to pay debt service related to capital projects including the new airport terminal project. It is assumed that \$6.3 million in PFC funding is eligible to service the Bonded debt. The current PFC balance as of 06/30/14 is \$1.25 million. Based upon current enplanement levels it is estimated that the PFC revenue for FY 2014-15 will be approximately \$610,000, exceeding the annual projected eligible terminal debt service of \$390,000 by \$220,000.

CFC Revenue

Customer Facility Charge (CFC) is a fee charged by the rental car companies to their customers at \$10 per rental contract. It is assumed that \$334,332 of the project is eligible for CFC funding. A one-time payment will be made from the current CFC balance of \$730,000. Based upon current deplanement levels it is assumed the CFC revenue for FY 2014-15 will be \$232,000.

Bond Issuance

All remaining project costs are proposed to be funded with local share through bonds. The bonding requirement of \$9.4 million consists of \$6,300,000 of PFC bonded debt and \$3,100,000 of local share debt. The \$9.4 million bond equates to approximately \$578,400 of annual debt service. This includes \$390,000 annual PFC debt service payment and \$187,500 local share annual debt service payment. To calculate the annual debt service, certain assumptions were made including \$357,500 in transaction costs, 60-90 days to issue, bond interest rate (4.55%), and a term of 30 years.

As in any financial analysis that requires an extraordinary number of assumptions, the results noted from this analysis are subject to change and should only be used as a guide to determine initial feasibility of the submittal of a project grant application. As more information is known and fewer assumptions are required, at the completion of bidding and grant award, Airports recommends the decision to build the Terminal project be revisited from a financial feasibility perspective.

FINANCIAL PROJECTIONS SUMMARY

METHODOLOGY

This section explains the methodology used to forecast the financial picture of the Airport's operations over an eleven year period beginning with FY 2014-15. For all of the following scenarios, salaries are escalated by 2.5% per year and services and supplies are escalated 2% per year. Revenues are increased by 2% per year. Future expenditures and revenues that have not occurred in previous fiscal years were considered and added to the scenarios as additional revenue or expenditures

Worst Case Scenario

The Worst Case Scenario uses the historical seven year low (FY 2009-10) for revenues, while taking current expenditures, and then assumes an annual escalation rate. The scenario assumes a minimum FAA Grant award in the amount of \$14,575,000, resulting in higher debt borrowing to complete the project. In this scenario annual debt service for the local share would increase from approximately \$187,500 to \$328,000 due to the reduction in Passenger Facility Charges (PFC) collections. The enplanements assume 2009-10 enplanement levels, with a 2.3% increase each year.

Baseline Scenario

The Base Line Scenario establishes a seven year (FY 2007-08 to FY 2013-14) average historical revenue and enplanements, while taking current expenditures, and then assumes an annual escalation rate. With the current information this represents the Airports most probable forecast. The scenario also includes \$135,400 of revenue from other sources such as public parking, concessions and other leasing opportunities. The baseline assumes an FAA grant award of approximately \$19,600,000. The enplanements assume a five year annualized historical enplanement level, with a 2.3% increase each year.

More Optimistic Scenario

The Most Optimistic Scenario uses the historical seven year high for revenues and enplanements (FY 2007-08), while taking current expenditures, and then assumes an annual escalation rate. Included is \$236,200 of revenue from other

sources such as public parking, concessions and other leasing opportunities. The scenario assumes an FAA grant award of approximately \$22,700,000. The enplanements assume 2007-08 enplanement levels, with a 2.3% increase each year.

Enplanements

The enplaned passenger forecast is used to project future PFC revenue, AIP entitlement grants, and certain non-airline revenue sources such as parking and terminal concession revenue from FY 2014-15 to FY 2024-25. Enplaned passengers are projected to increase from the actual 147,105 in 2013-14 to 175,304 in 2024-25, representing a total average growth rate of 1.63% over the next eleven fiscal years.

Airports projected an eleven year enplanement growth rate of 1.63% as compared to current FAA mainline air carriers and regionals projections for domestic enplanements of 0.6% in 2014. The 1.9% per year on average during the remaining 20-year forecast period providing additional validity to the enplanement forecast.¹

AIRPORT FINANCIAL STRUCTURE

The previously described scenarios are highlighted in Table C-1 below.

The estimated "Base Line" or most likely scenario projects an annual budget deficit of approximately \$250,000-\$300,000. Under the "Base Line" scenario, Airports is not able to support debt service on Bonds for the \$3,100,000 Local Share. It is expected Airports would require a one-time contribution of approximately \$3,100,000, or an ongoing annual General Fund subsidy of approximately \$250,000-\$300,000. If a one-time contribution were received from the county, Airports could reduce annual debt obligation by \$187,500, and the projected annual deficit is reduced to approximately \$80,000-\$100,000.

Under "More Optimistic" financial projections the Airport would run a surplus, and be able to cover the local share of debt service payments and new operating expenses related to the new terminal.

The "Worst Case" scenario outlines the most pessimistic possibility. Under this scenario, Airports would not be able to meet current or additional operating expenses and debt service payments.

Table C-1

	Worst Case	Baseline	More Optimistic
Current Budget	\$4,226,100	\$4,226,100	\$4,226,100
Additional Operating Revenues	0	(\$135,400)	(\$236,200)
Additional Operating Expenditures	\$178,000	\$178,000	\$178,000
Additional Debt Service (Not inc. PFC paid debt)	\$328,300	\$187,500	\$190,100
Projected Budget	\$4,732,400	\$4,456,200	\$4,357,900
Projected Revenues	(\$3,635,000)	(\$4,201,800)	(\$5,073,900)
(Surplus)/Deficit	\$1,097,400	\$254,400	(\$716,000)

ESTIMATED PROJECT COSTS

Project Costs

The current project costs for the new terminal project are estimated at \$30.6 million. This estimate was established by Reynolds, Smith & Hills (RS&H) and then was independently verified by Arcadis in August 2014 for risk mitigation. A

¹ http://www.faa.gov/news/fact_sheets/news_story.cfm?newsId=15934

detailed breakdown of the project costs can be seen in Attachment 3. Additionally, risk mitigation has been completed by using Building Information Modeling (BIM) to identify potential inaccuracies in the drawings reducing the potential for change orders during construction. Staff will also review additional value engineering options and bid alternatives for potential cost savings on the project.

Annual Operations and Maintenance

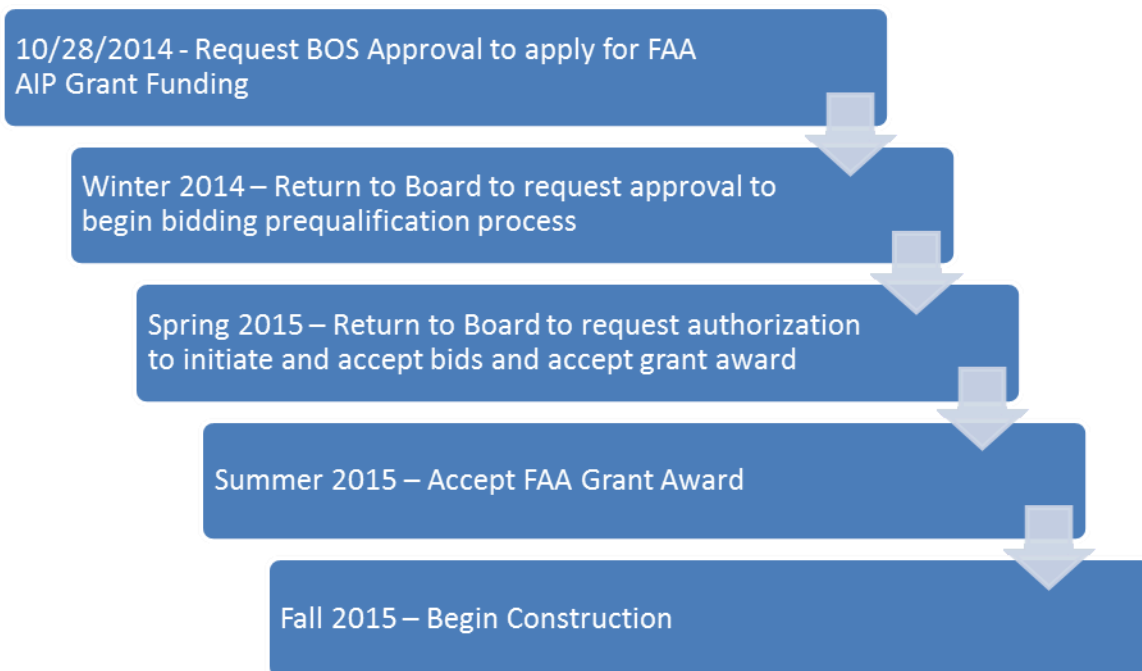
The major Operation and Maintenance (O&M) expenses at Airports include building maintenance, utilities, police and security, airport rescue and fire-fighting. In the first few years after opening, Airports will adjust to a new terminal resulting in a few areas (e.g., passenger terminal) experiencing significant increases in O&M Expenses. It is currently assumed in the baseline scenario that an additional \$178,000 will be needed annually to operate the new terminal. This includes: \$64,400 in salaries related to the addition of one full time employee to replace human resources and administrative support provided by the General Services Agency, which will no longer be available after the dissolution of the agency, \$51,000 for utilities, and \$62,600 for increased custodial support from the General Services department.

Numerous benefits accrue to the Airports and the County by pursuing the project. Grant funding (\$20+ million) and PFC and CFC sources can be used to invest in a new facility. Deferring or declining to pursue the project significantly jeopardizes the Airports' ability to obtain this level of Federal support in the future. The new terminal no longer limits the growth of the Airport and compliance with FAA airfield safety and design standards can be achieved.

If the Airport doesn't move forward with a grant application to construct a new terminal at this time, the FAA discretionary funding will likely not be available to renovate the current terminal building in order to bring it into compliance. While entitlement funds and PFC's could potentially be used for renovating the existing terminal, it is likely the total project cost could escalate to an unacceptable level. Most importantly, the work would merely bring the building into compliance with FAA standards, with no ability to grow additional air service. No additional space in the building would be constructed due to numerous limitations existing on the site and within the building. Finally, the Airport may be required to remote board airline flights to ensure adequate taxiway separation for the aircraft. While there is no current cost estimate to get the existing building into compliance it is not seen as a good investment for airports funds now or in the future.

Airports is requesting the Board authorize the submission of a grant application to the FAA to allow for the continued progress of the terminal project. Submitting an application doesn't commit the Airports to building the new terminal at this point in time. Airports plans to gather and provide more information, including the FAA grant award amount and the construction bid costs before requesting the Board make a final decision to build the new terminal. Airports will return to the Board for further direction and a final decision to proceed with the project should a grant be offered by the FAA. This decision point will likely occur in May or June of 2015 allowing time for further consideration of the project.

Airports proposed project timeline is as follows:



OTHER AGENCY INVOLVEMENT/IMPACT

Federal Aviation Administration – The FAA provides grant funding for airports through the Airport Improvement Program grant process as well of project oversight.

Auditor Controller Treasurer Tax Collector's Office (ACTTC) – The ACTTC Office has provided input for the Airports financial projections and has provided information regarding bond rates and processes.

Administrative Office – The Administrative Office has provided guidance and met with the Airport and Auditor's Office throughout the process.

FINANCIAL CONSIDERATIONS

If a decision is made to move forward with the project, it is projected that the construction will be completed by the end of FY 2016-17. The associated costs for operations and maintenance are reflected to begin in the FY 2017-18 budget projections. Discussed below are the financial results for each of the major areas for the baseline scenario.

Revenue

The impact on revenues from building the new terminal is unclear due to the volatility of the airline industry. Ultimately there is no guarantee that construction of a new terminal will generate additional revenue. However, there are four comparable airports (Asheville NC, Gainesville FL, Springfield MO, Traverse City MI) that have constructed new terminals, showing a combined average 27% increase in revenues taking place over a 7 year time span. These increases included: new concessions, larger spaces for tenants and new opportunities for businesses in the terminal facility. A conservative amount of revenue enhancements have been assumed in the baseline and more optimistic scenarios.

Operations and Maintenance Expenses

O&M expenses are projected based on the revised budget for FY 2014-15 as the baseline and then increased using a 2% annual growth rate throughout the forecast period. In addition, adjustments are made for additional terminal related expenses for the new terminal in FY 2017-18. Specifically, staff costs, custodial services and utilities are increased in FY 2017-18 (completion year for the terminal expansion) by \$178,000. O&M expenses are expected to increase from \$3.71 million in FY 2014-15 to \$4.2 million in FY 2024-25.

Additional Revenue Opportunities

Outlined in the More Optimistic Scenario, Airports is working to obtain additional service from incumbent and new carriers. This effort has been focused on Denver (United Airlines) and Seattle (Alaska Airlines). If additional service is started new revenue from parking, concessions, PFC's and other sources will be realized. Neither airline has made a commitment to begin these services at this point in time however discussions continue.

RESULTS

In continuing to move forward with this project the potential benefits to the Airports and County will be significant. A large portion of the funding to construct the facility will come from outside sources such as the FAA. The new terminal will also provide the ability for future growth whereas in the current terminal there are significant constraints. Approval to apply for the FAA grant will authorize the Interim Airport Director to pursue outside funding sources to construct a new terminal. The new terminal will contribute to the County's overall goal of a safe, prosperous and well governed community.

ATTACHMENTS

Attachment 1: Site Map

Attachment 2: Terminal Rendering Birds Eye View

Attachment 3: Terminal Program Budget